EXHIBIT 1

Cal. Blue Cross to Create Foundations Worth $3.2-Billion as It Goes For-Profit

By ANNE LOWREY BAILEY

California regulators have approved a precedent-setting plan that will allow Blue Cross of California to give up its non-profit status in return for creating a pair of health-care foundations with endowments totaling $3.2-billion.

The approval clears the way for the creation of America's sixth-largest philanthropy. Under the plan, the two foundations, which will be linked financially, will be required to spend $160-million on grants and other charitable activities next year, and 5 per cent of their total assets thereafter.

The two foundations will seek to to give poor Californians better access to health care and promote improved health for state residents.

The California plan also creates a set of philanthropic guidelines for use in future conversions of health organizations from non-profit to for-profit status. Many such groups are under intense financial pressure to make the switch in order to survive in the competitive health-care business.

They include Blue Cross organizations in Colorado, Indiana, Maryland, Missouri, and Virginia.

Critical Role

"These philanthropic principles ought to be applied along with business principles in all future conversions of this type," said Kirke Wilson, president of the Rosenberg Foundation in San Francisco.

"These charitable dollars can play a critical role if they can be protected for philanthropy and not slipped into the pockets of investors," added Mr. Wilson.

Others share those concerns.

The California Legislature last week passed a measure to regulate future conversions and make sure that assets generated by a tax-exempt group remain in the charitable world. Gov. Pete Wilson is expected to sign the bill.

Assemblyman Phillip Isenberg, who co-sponsored the bill, said it laid out ground rules for government review of "all philanthropic activity in California—whether its a hospital, H.M.O., or arts group—that becomes so commercialized it needs to become for-profit."

The National Association of Insurance Commissioners, based in Kansas City, Mo., has formed a Special Committee on Blue Cross Plans to study such issues as how to fairly value a non-profit insurance company that is converting to for-profit status, executive compensation and ownership of charitable assets after such a conversion, and how to reconcile differences in state-insurance and non-profit laws.

Last year the national Blue Cross/Blue Shield Association, which is headquartered in Chicago, issued its own standards for such conversions. The association passed a resolution approving the Blue Cross of California plan in April of this year.

Blue Cross of California officials said they were happy to have the negotiations, which stretch back over four years, finally settled. "We're very pleased to get closure, and use these assets to work for the people of California," said Ann F. Monroe, senior vice-president of Blue Cross of California. "The rest of the country will be looking at how we spend these charitable dollars. It's a big responsibility."

Move to Profit-Making Status

In 1991, Blue Cross created WellPoint Health Networks as a for-profit subsidiary that holds 80 per cent of its assets. That move was widely interpreted as an effort to circumvent the requirements of converting to for-profit status.

California charities and consumer groups argued that Blue Cross ought to make a charitable contribution as part of its reorganization and in 1992 persuaded Blue Cross to donate $100-million to charity over the next 20 years.

The conversion was initially approved, but many charities argued that Blue Cross ought to contribute more than $100-million.

In 1994, California Corporations Commissioner Gary S. Mendoza, who oversees health plans, urged Blue Cross to create a plan that would provide at least $1.1-billion to charity. Then Blue Cross decided to put all of its commercial assets into WellPoint, and proposed giving $2.2-billion to create the California HealthCare Foundation. However, Blue Cross wanted to incorporate the giant foundation as a "social welfare" organization classified under Section 501(c)(4) of the Internal Revenue Code, rather than as a charity under Section 501(c)(3).

Such organizations are not required to spend 5 per cent of their assets on charitable activities each year, as private foundations are, nor are they prohibited from lobbying and making campaign contributions to political candidates.

Charities and state officials also protested because the fund would be governed by the former directors of Blue Cross of California, who might put the health plan's interests ahead of foundation needs.

Then, in April, Blue Cross announced plans for WellPoint to merge with Health Systems International to create the nation's largest publicly traded managed-care organization, with annual revenues of $6-billion. That caused the value of the company's stock to skyrocket to $3.2-billion, and Blue Cross to offer the plan that has now been approved.

Financing for Plan

The new foundations have been tentatively named the Western Foundation for Health Improvement and Western Health Partnerships. Under the plan approved by Commissioner Mendoza this month, the foundations would be financed in the following way:

► Blue Cross of California would receive a one-time dividend of $12.31 for each share of WellPoint stock it owns, or about $1-billion in cash. That money would be given to the Western Foundation for Health Improvement, which would be incorporated as a 501(c)(3) private foundation.

► Each WellPoint shareholder would also receive two-thirds of a share of stock in the new company. The 80 million WellPoint shares owned by Blue Cross would be given to Western Health Partnerships, a foundation incorporated as a 501(c)(4), along with $200-million in cash, bringing that foundation's assets to $2.2-billion.

► After those payments, the two funds would receive no further dividends from their company stock.

Governance of the two foundations has been a contentious issue.

Blue Cross has agreed that by next April, 9 of the Western Foundation's trustees would be former Blue Cross directors, the other 11 would be new directors representative of California's population.

However, 6 of the 9 board members of the Western Health Partnerships foundation will be former directors of Blue Cross. That requirement was imposed by the national Blue Cross/Blue Shield Association, which wants the for-profit company to be controlled by the same people who ran it previously. In addition, the association wants the right to approve the sale of large blocks of the foundation's stock. The association has threatened that it might not allow the new for-profit company to continue to use the Blue Cross trademark, one of its most valuable assets, if regulators disregarded its rules.

Consumers Union, which has been representing public and charitable interests in the negotiations, objects to the provision that bars the foundation from selling a majority interest in the new for-profit company without approval from the national association.

Judith Bell, co-director of the union's West Coast office, said the provision might not be in the foundation's best interests. Some buyers might pay a premium for purchasing a controlling interest in the new company that could build the new foundation's endowment.

Mr. Mendoza has made it clear that Western Health Partners should exist primarily as a vehicle for selling off a majority of its stock in the for-profit health company at good prices. He has stipulated that Western Health Partners must donate 80 per cent of the income from the stock it liquidates to the Western Foundation for Health Improvement. In addition, he has prohibited Western Health Partners from supporting political campaigns.

Stockholder approval of the merger and creation of the foundations is expected this fall. Blue Cross officials hope that the new boards will be in place by early 1996. They will then have to scramble to create plans to spend $160-million next year.